

HOW AGRICULTURAL PROPERTY IS VALUED IN COLORADO

We have prepared this brochure to explain how agricultural properties are valued for property tax purposes. For further information please visit our website at www.dola.state.co.us/propertytax.



AGRICULTURE IN COLORADO

GENERAL INFORMATION

Agriculture plays an important role in the economy of Colorado. It is ranked as the third largest industry in the state providing an estimated 105,000 jobs. Farms and ranches generate about \$15 billion gross income. In addition, Colorado is the largest producer of lamb in the nation and ranks 4th in cattle feeding with annual marketings of more than two million head of feed cattle.*

* *Statistics from the Colorado Department of Agriculture*

HISTORY OF AGRICULTURAL LAND VALUATION

Colorado Constitution and statutes prescribe that the actual value of agricultural lands, exclusive of buildings, shall be determined by consideration of the earning or productive capacity of the land over a reasonable time period. The earnings are capitalized into an actual value.

In 1969, individuals representing the agricultural community met with the Colorado Tax Commission (now called the Division of Property Taxation) to establish valuation criteria. They agreed upon the following provisions:

- 1) Earning or productive capacity is determined by measuring the landlord's net income over a reasonable period of time.
- 2) A reasonable time period would be the current ten-year average.

AGRICULTURAL LAND DEFINITION

Colorado Statutes define agricultural land as one of the following:

- 1) A parcel of land, whether located in an incorporated or unincorporated area and despite the uses for which such land is zoned, that was used the previous two years and presently is used as a farm or a ranch, or is being restored through conservation practices. The conservation practice must be a plan under the Conservation Reserve Program (CRP) or a plan approved by an appropriate conservation district. Agricultural land includes land under the residence and land under support buildings if they are a part of the operation.
- 2) A parcel of land that has at least forty acres of forestland and that is subject to a forest management plan. The land must be used to produce tangible wood products that originate from the productivity of the land for the primary purpose of obtaining a monetary profit.
- 3) A parcel of land that consists of at least eighty acres, or less than eighty acres if such parcel does not contain any residential improvements, is subject to a perpetual conservation easement, was classified by the assessor as agricultural land at the time such easement was granted, if the easement was to a qualified organization, if the easement was granted exclusively for conservation purposes, and if all current and contemplated future uses of the land are described in the conservation easement. This provision does not include any portion of such land that is actually used for nonagricultural commercial or residential purposes."
- 4) A parcel of land, used as a farm or ranch, if the owner has a decreed water right or a final permit to appropriated ground water for purposes other than residential purposes, and the water appropriated under such right or permit is used for the production of agricultural or livestock products on the land.*
- 5) A parcel of land, whether located in an incorporated or unincorporated area and despite the

uses for which such land is zoned, that has been reclassified from agricultural land to a classification other than agricultural and that met the definition of agricultural land is set forth in (1) to (4) during the three years before the year of assessment.**

**Must still qualify as described in (1) to (4).

AGRICULTURAL TERMS

FARM:

A parcel of land that is used to produce agricultural products that originate from the land's productivity for the primary purpose of obtaining a monetary profit. Agricultural products are plant and animal products derived from farming, ranching, animal husbandry, and horticulture.

RANCH:

A parcel of land that is used for grazing livestock for the primary purpose of obtaining a monetary profit.

LIVESTOCK:

Livestock means domestic animals that are used for food for human or animal consumption, breeding, draft, or profit.

IMPROVEMENTS:

Improvements are all structures, buildings, fixtures, fences, and water rights attached to the land. Improvements are appraised and valued separately from the land. Water rights, windmills, and sprinklers are improvements that are appraised and valued as a unit with the land.

VALUATION

AGRICULTURAL LAND

Agricultural land is valued by capitalizing the landlord's net income into an indication of value using the capitalization rate established by law. Currently the rate is 13 percent.

The landlord's net income is the landlord's gross income minus allowable expenses that are typically paid by the landlord. The expenses may include baling, fencing, water, fertilizer, alfalfa seed, and chemicals. The Division of Property Taxation researches and publishes a list of typical expenses that are used, while other expenses are gathered locally.

The landlord's gross income measures the earning or productive capacity of the land. The earning or productive capacity is determined by:

- 1) Establishing soil capabilities and classifications of farm or ranch lands.
- 2) Establishing the principal commodities and ten-year average yield by farming areas. The Division of Property Taxation researches and develops statewide commodity prices based on ten-year averages. All county assessors are required to use these prices in valuing all agricultural land.
- 3) Establishing a carrying capacity for grazing land and meadow hay land. The carrying capacity is based on the animal unit month (AUM). The term AUM means the number of acres required to support a 1,000-pound animal for one month without supplemental feeding.

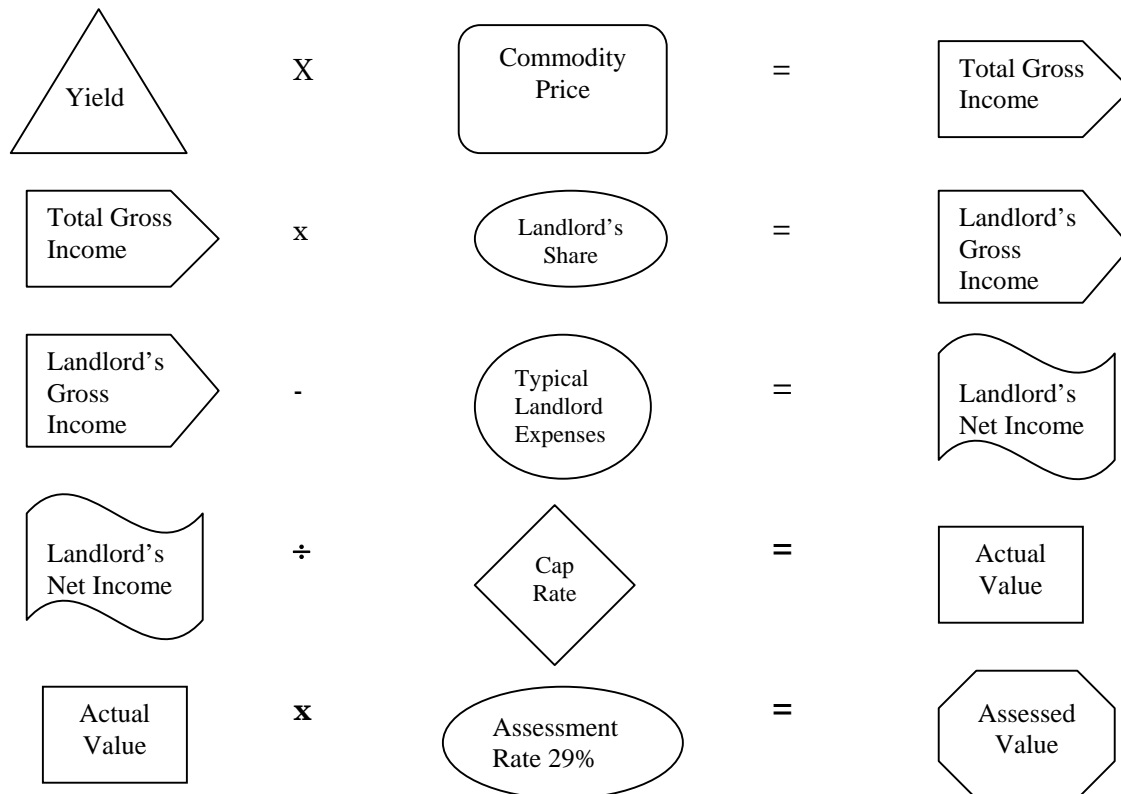
IRRIGATED OR DRY FARM LAND

The steps in the valuation of irrigated or dry farmland are as follows:

- 1) Determine the basic crops raised and the cropping practices used in each production area.
- 2) Establish the appropriate ten-year average yield for each crop in each production area.
- 3) Determine the landlord's share of each crop.
- 4) Establish the typical landlord expenses in each production area on a ten-year average basis.
- 5) Calculate the landlord's net income.
- 6) Determine the actual value by dividing the landlord's net income by the statutory 13 percent capitalization rate.
- 7) For assessment purposes, the assessed value is calculated by multiplying the actual value by the statutory assessment rate of 29 percent.

Ditches, canals, flumes, and sprinkler systems owned and used by individuals for irrigating land that is owned by the same individuals, are not taxed separately from the land while they are owned and used exclusively for such purposes.

A graphic example of this procedure would be as follows:

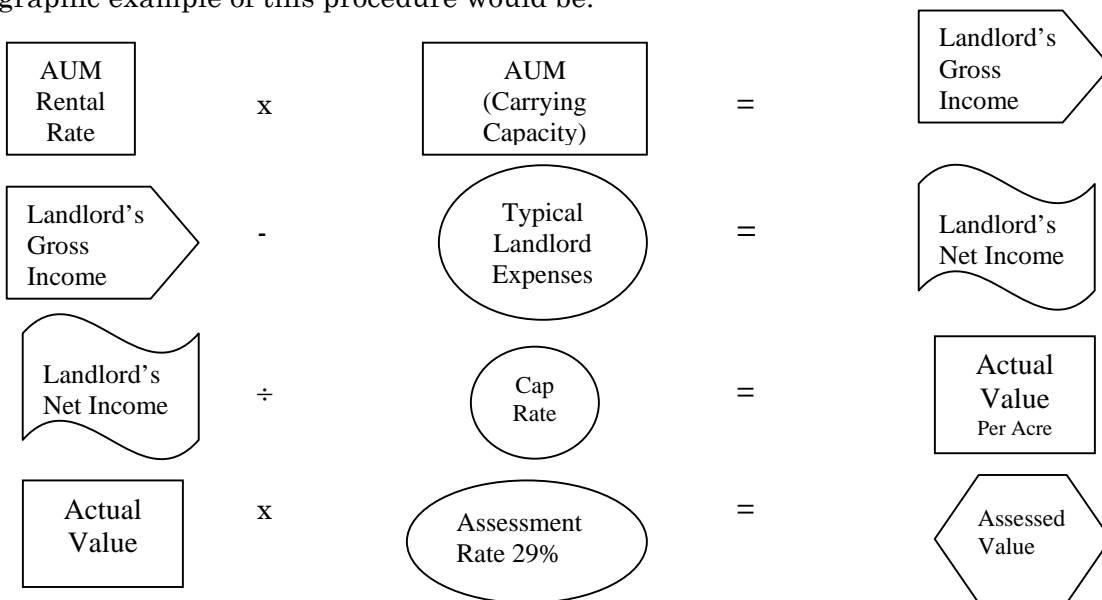


GRAZING OR MEADOW HAY LAND

Meadow hay land is uncultivated land devoted to forage production, but may be irrigated or sub-irrigated. The steps in the valuation of grazing or meadow hay land are as follows:

- 1) Classify the land according to the carrying capacity for the appropriate ten-year period. Determine the gross income of the landlord based on the average animal unit month (AUM) multiplied by the AUM rental rate researched by the Division of Property Taxation.
- 2) Deduct the appropriate expenses from the gross income to get the landlord's net income. These expenses are researched and published by the Division of Property Taxation.
- 3) Determine the actual value by dividing the landlord's net income by the statutory 13 percent capitalization rate.
- 4) For assessment purposes, the assessed value is calculated by multiplying the actual value by the statutory assessment rate of 29 percent.

A graphic example of this procedure would be:



FORESTLAND

Forestland that has been designated as agricultural land is classified and valued the same way as comparable surrounding agricultural land. If there is no agricultural land surrounding a forestland parcel, the soil classification from the published soil survey for the parcel is determined and the value is set according to similar soil types. The Colorado State Forest Service annually provides a list of qualified parcels in each county.

LAND UNDER A PERPETUAL CONSERVATION EASEMENT

Agricultural land that becomes subject to a perpetual conservation easement shall continue to be valued as agricultural land, except that if any portion is used for nonagricultural commercial, residential, or any other purposes not permitted by the easement, that portion shall be valued according to such use.

OTHER AGRICULTURAL PROPERTY

Agricultural property (agribusiness) that does not meet the definition of farm, ranch, or forestland is valued according to its use on the assessment date. The market approach is generally used to determine the value. The approach uses sales of similar agribusiness properties to arrive at the estimate of value. Other agricultural property may include (but is not limited to) feedlots, green houses, fur-bearing animal farms, and mushroom farms.

PERSONAL PROPERTY

Agricultural equipment is exempt from property taxation if it is used on the farm or ranch for planting, growing and harvesting agricultural products or for raising or breeding livestock for the primary purpose of obtaining a monetary profit.

Other personal property such as livestock, livestock products, agricultural products, and supplies are also exempt from property taxation.

AGRICULTURAL BUILDINGS

LEVEL OF VALUE

Real property is reappraised by the assessor's office every odd numbered year. The value determined by the assessor for the year of reappraisal is generally used for the intervening year also. The actual value of real property is based on its value as of the appraisal date, which is June 30th of the year prior to the reappraisal year.

AGRICULTURAL RESIDENCES

Residences on farm, ranch or forestlands are valued using only the market approach to value.

The **market approach** compares sales of similar properties and adjusts for the differences to arrive at the market estimate of actual value.

Residential real property is assessed at a percentage of its actual value. This assessment percentage is determined by the Colorado legislature based on a study conducted by the Division of Property Taxation. Further details concerning the assessment rate can be found in the "UNDERSTANDING PROPERTY TAXES" Brochure.

AGRICULTURAL IMPROVEMENTS

Agricultural buildings other than the residence are valued using appropriate consideration of the three approaches to value: cost, market, and income.

While consideration must be given to the three approaches to appraisal, there generally is insufficient data for the application of the market or income approaches to value. Therefore, agricultural buildings are typically valued using the cost approach.

The **cost approach** estimates the replacement cost of the building and deducts its accrued depreciation to arrive at the cost estimate of actual value.

To calculate the assessed value of the agricultural buildings, the actual value is multiplied by the statutory assessment percentage of 29 percent.

THE COUNTY ASSESSOR AND YOU

ASSESSMENT DATE

Colorado law states that January 1 is the assessment date. The assessor determines the current condition and use, and values the property as it existed on January 1. All buildings or improvements constructed before this date will be taxed for the current year.

If the board of county commissioners determines that the county is severely impacted by residential growth pursuant to section 39-5-132, C.R.S., the assessor shall value the new construction on July 1 and prorate the value by the number of months it existed during the year. At the present time, Douglas County is the only county in the state that is severely impacted by residential growth.

ASSESSOR'S ROLE

Because the method for valuing agricultural land is based on the land's productivity, the assessor periodically reviews the land to verify its continued use for agricultural purposes.

To ensure that your property is classified properly, the assessor may request additional information from you. The information could be a copy of your previous year's income tax 1040-F form, a grazing lease, or an agricultural land classification questionnaire. The assessor may also conduct a physical inspection of your land.

However, it is important to note that the classification of your property will not be based solely on the information you supply on the questionnaire, and all responses will be treated as confidential information.

AGRICULTURAL PROPERTY OWNER'S ROLE

Once classified as agricultural land for valuation purposes, the assessor must verify typical crop yields and expenses of the landlord. You may also be asked to provide additional information from your farm records.

For further information on how tax rates are determined, please request a copy of the "UNDERSTANDING PROPERTY TAXES" brochure from your local county assessor. You may also view the publication on our website at www.dola.state.co.us/propertytax.

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